Consumer Mathematics : Financial management

Notes by : rraezzz

Financial Management Process

- Setting goals
- Evaluating financial status
- Creating financial plan
- Carrying out financial plan
- Reviewing and revising the process

Short-term Financial Goals

- Short-term financial goals can be achieved in less than a year
- Do not involve a large amount of money
- For example, purchasing a laptop, furniture, a cell phone and others

Long-term Financial Goals

- Long-term financial goals sually take more than five years to achieve
- Involve a large amount of money
- For example, an individual needs to have savings for retirement, children's education, medical expenses and other

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Smart Financial Goals

- S – Specific
- M – Measurable
- A – Attainable
- R – Realistic
- T – Time bound

Evaluating Financial Status

- Assets and liabilities are the benchmarks for evaluating our financial status
- Example of assets are cash, savings, real estate investments, fixed deposits, unit trusts or company shares
- Liabilities are bank loans, credit ard debts ad other financial obligations
- We should know the outstanding payments such as unsettled rent, utility bills, credit card bills and other

Creating Financial Plans

- Life management based onfinancial planning helps us monitor our cash flow
- There are two important components in constructing a financial plan, namely the sources of income and expenses
- Income consists of active income and passive income
- Active income is the main income such as salaries, allowance, commissions and other financial resources
- Passive income consists of rent received, interest received, dividends and other investments
- Both of these incomes are cash inflows.

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Creating Financial Plan

- Expenses consist of fixed expenses and variable expenses
- Fixed expenses are expenses that must be paid or spent such as rent, insurance payments, housing loan instalments, car instalments and credit card payments
- Variable expenses will change every month according to our spending behaviour
- For example, petrol expenses, groceries, electricity bill payments and water bill payments
- Both of these expenses are cash outflows
- A positive cash flow will exist if the total income is exceeds the total expenses
- A negative cash flow will exist if the total number income is less than the total expenses

Steps to Create Financial Plan

- Define the short-term and long-term goals
- Make an initial budget to achieve each goals
- Calculate monthly savings needed to achieve the short-term and long-term goals
- Analyse spending behaviour
- Set a time frame to achiove each goals
- Determine income strategies that will help to achieve the financial goals

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Carrying Out Financial Plan

- Turns the financial planning into action that can be implemented
- We must follow the plan at an early stage
- We must ready to change and compare the planned monthly expenses and actual expenses
- It gives us an opportunity to identify any wastage and hence reduce the actual expeneses in order to meet the monthly expenses as planned

Reviewing and Revising the Progress

- Important to make sure the cash flow is always positive
- This indirectly helps us to achieve our financial goals as planned.
- We should also be prepared to change our financial goals if they are not realistic for our monthly income